

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, and welcome to the Sanoma second-quarter results conference call. At this time, I would like to turn the conference over to Mr. Hannu Syrjanen, CEO. Please go ahead, sir.

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Okay. Thank you very much. Good afternoon, ladies and gentlemen, and welcome to Sanoma's second-quarter 2010 conference call. As heard, my name is Hannu Syrjanen, and I'm President and CEO of Sanoma Corporation. And Kim Ignatius, our CFO, and Kare Laukkanen and Anna Tuominen from our IR team are here with me.

So, first of all, we have today published our second-quarter result and also the name of the new CEO. So, Harri-Pekka Kaukonen, current Executive Vice President of the Finnish Fazer Group, will be my successor. And he will begin as the President and CEO of Sanoma at the beginning of 2011, and I will retire in the autumn of 2011, according to my contract. So, Harri-Pekka is warmly welcome on board.

Then, I go to the figures. So, as normally so, I will now first go through the key issues regarding our second-quarter result, and then we are more than happy to answer your questions. And the slides I'm referring to are available on our IR website.

During the second quarter, our net sales, especially advertising sales, began to grow. This, together with the systematic cost control, enabled us to improve our result excluding non-recurring items by 11%. We focused also on efficient cash flow management, and had significantly better cash flow in the first half of 2010 than in the comparable year.

There are clear signs of improving advertising markets in Western Europe and also in Russia. The recovery in other CEE countries will take time. And therefore we will continue to focus on maintaining a strong cash flow and improving our efficiency.

Next slide. So, clearly the most important event on the second quarter was the Welho transaction, where we divested our cable TV operation to Finnish telecommunication group DNA. The EUR200m that we got from the deal we invested back into DNA, and received a 21% stake in the company. In this transaction, we gained a share in a very profitable and competitive company with great growth potential.



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Welho and DNA form a strong national telecommunication player that has the muscle for further development. For us, it's a long-term strategic ownership. We believe that media and telecommunication businesses are converging further, and this transaction enables us to participate in developing the industry. Also, some smaller steps in developing the portfolio were taken.

Then, a few words about our second-quarter numbers. All in all, the second quarter was strong for us. Our net sales grew in all divisions and were up by 3%. Sanoma's advertising sales in the second quarter grew by 9%. Our operating profit excluding non-recurring items improved by 11%, to EUR80m. The result improved thanks to our efficiency measures, as well as the good performance of our Dutch print and online operations. Advertising sales recovered also in other main markets.

As said, our cash flow was significantly stronger, thanks to a considerably better operational result. Also, lower interest costs and positive development of net working capital improved the cash flow. At the end of June, we had about 400 employees less than at the year-end.

Next, a few words on the divisional result development. Slide five shows the contribution of each division to our operating profit excluding non-recurring items in the second quarter. In Magazines, profitability improved in international operations, and in particular in the Netherlands, thanks to good sales development as well as improved efficiency and good cost control.

In Sanoma News, the operational result improved clearly, but the reported operating profit excluding non-recurring items was burdened by the holiday pay arrangement in '09 and '10.

Sanoma Entertainment continued its good performance. Division's advertising sales developed well. Following the closing of Welho deal at the end of June, both net sales and EBIT of the division will decrease clearly in the coming quarters of this year.

Also, Sanoma Learning & Literature improved its result, thanks to a good performance in the Learning business and the improved efficiency in the language services. In Literature, restructuring of operations continues.

Sanoma Trade improved its result in movie operations, or movie theater operations, and in trade services. But the overall result decreased, mainly due to costs from the restructuring of operations in Estonia and Russia, which also will continue.

Sanoma's financial position strengthened further. Our balance sheet now totals some EUR3.3b. Our equity ratio is at 42%, in line with our target to keep this ratio between 35% and 45%. Our net debt was lower than a year ago. And our net debt to EBITDA ratio was 1.8, which is lower than normal, due to the capital gain from the Welho transaction, of course. If needed, so low ratio enables us to take additional debt without compromising our covenants.

The future playing field of media companies will be fundamentally different to the one we compete in today. Media products and services will be much more customized and much more personal. Media consumption will increasingly be an active experience, and digital services will play a much bigger role, as we all know. One of our public targets is to reach EUR240m revenues from consumer online media by 2012. In the second quarter, these revenues grew by 18%, so we are well in track.

In the future, media companies need a higher and faster degree of innovation. Our new innovation management system is in process. So, the new playing field offers a lot of opportunities for us.

And finally, our guidance, which is unchanged, so we expect that in 2010 our net sales will grow and our operating profit excluding non-recurring items will improve slightly. And in the comparable year, '09, operating profit excluding non-recurring items was EUR229.5m.

And I really want to point out that this guidance includes the effect of the weekly magazine Humo and the cable TV operator Welho transactions on 2010 figures. The estimated negative impact of these transactions on 2010 operating profit is some 12%. So, our guidance is at least EUR12m better than our previous one.



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Briefly, to sum up, so our second quarter was strong for us. And with continued cost control and the improving market, it looks like we have a good year ahead of us.

So, I am brief today, ladies and gentlemen. Thanks for listening, and we are ready for your questions, please.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from Alex Wisch from SP Equity Research. Please go ahead.

Alex Wisch - S&P Equity Research - Analyst

Hi. Thank you for taking my question. I had a couple of questions. One is on Learning & Literature. Your guidance on educational budgets in the Netherlands and Finland is one of caution. If you can give us more color on how cautious is that. Are we expecting declines in the second half of the year, particularly in the important third quarter?

Another related question is how are we doing in terms of the guidance given on the past Capital Markets Day in growing Learning & Literature? Have you found interesting possible acquisitions? And what's happening that this is not happening yet? Is it price, or is it lack of suitable companies? If you can give us more color on that.

Finally, on advertising, if you can give us more indications about July. We know that May and June were very strong, and even for press, and that would be nice to have a bit more color on the latest in Finland, particularly. Thank you.

Hannu Syrjanen - Sanoma Corporation - President & CEO

I'll start with advertising and then Kim will elaborate Learning & Literature a bit more in detail. Of course, we don't really publish the monthly figures, but the trend continues. Of course, July is pretty small month in advertising, especially job advertising, because as we all know, Finland basically is closed in July. But the positive trend looks continued also in July.

Kim Ignatius - Sanoma Corporation - CFO

Okay. This is Kim Ignatius on Learning. Overall, one could say that we are pleased with the development during the first six months, and especially now, due to already being the important quarter for the Learning businesses. So, there haven't been any negative surprises. And we haven't seen any measures taken by the governments or the communities in increasing savings efforts that would have impacted our sales in Learning. So, so far, so good.

The market which is economically a bit in difficult situation is the Hungarian market, because of the political environment, which has impacted the currency's strength a bit as well. So, we have some conversion negatives just from the declining value of the Hungarian currency. But in the businesses itself, so far, everything is going as planned, no negatives.

When it comes to M&A and the strategic statements that we have earlier made that we would like to focus on increasing the share of Learning business in our business portfolio, that still remains, but we don't have any concrete happenings to communicate to you.

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Alex Wisch - S&P Equity Research - Analyst

Thank you.

Operator

Our next question comes from Andrea Beneventi from Exane. Please go ahead.

Andrea Beneventi - Exane BNP Paribas - Analyst

Good afternoon, Mr. Syrjanen. Thank you for taking my question. It's Andrea Beneventi from Exane. I have a couple of them, actually. First one is on your guidance for Magazines, a slight EBIT growth. What is the OpEx for Magazines that you implied in your guidance for the second half? Will it be higher or lower than in the second half of '09, please?

And my second question is again on potential acquisitions in Learning & Literature. When should we expect further news flow in this sense, please?

Hannu Syrjanen - Sanoma Corporation - President & CEO

Yes. As you -- yes, thanks, Andrea. So, as you said, so we upgraded our outlook concerning Magazine Division, and I think that it mainly comes from improving market outlook. So, advertising market basically is growing everywhere. Of course, the recovery in some Eastern European countries still is pretty slow, and remains to be seen what happens there. But in our main markets, so market outlook is much better than it used to be.

So, we have plans to reduce some investment on marketing and advertising, in the case we need it. But in -- so the big picture is that we really still keep a very, very tough cost control, which we have done also previously. So, I think that in the case that we do not really need any new major investments on marketing and advertising, so we really keep the costs very controlled and leverage the growth, which definitely is there, because of recovery in the advertising market.

And M&A, same answer as what Kim said earlier. So we have nothing to say at the moment, but the strategy is the same as it used to be, so unchanged. So we look for acquisition targets in Learning & Literature, and when something concrete comes up we will and we are happy to publish them. But nothing concrete to say at this point of time.

Andrea Beneventi - Exane BNP Paribas - Analyst

I'm sorry to insist on the first question, Mr. Syrjanen, but if we use the assumptions that you are actually using for your guidance, do you expect OpEx to be higher or lower in the second half of the year, compared to '09, please, in Magazines?

Hannu Syrjanen - Sanoma Corporation - President & CEO

It's a detail, so we don't disclose. But as said, that in the case we need we do have resources to make some investment, especially marketing, but most probably those are not needed, and basically the trend in OpEx will continue.

Andrea Beneventi - Exane BNP Paribas - Analyst

Thank you.

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Operator

(Operator Instructions). We have now a question coming from Panu Laitinmaki from Danske Markets. Please go ahead.

Panu Laitinmaki - *Danske Markets - Analyst*

Hi. I have a question regarding the profitability of the TV operations. Since you are saying that because of the Welho divestment and other divestments second-half EBIT will be reduced by EUR12m, and most of that will be coming from Welho. But if I look at the Entertainment Division's second-half EBIT last year, it was less than EUR8m. So, assuming that Welho accounts for about EUR10m of the EUR12m decrease, does it mean that TV operations were actually loss-making last year? Can you comment on that?

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Yes. Of course, we have to take into consideration that in Entertainment figures there are basically three elements left. There is of course the division head, so overhead, which has not been changed yet after the Welho divestment, but of course it will be much lighter afterwards. Then we have Nelonen media, where we have six television channels and two radio channels. And then we had gaming operations. So, it's not this black and white, but of course you are right that the EBIT figures in our television activities are pretty low. So, that is, of course, the fact.

Panu Laitinmaki - *Danske Markets - Analyst*

Thanks.

Operator

(Operator Instructions). As we have no further questions, I would like to turn the call back to Hannu Syrjanen for any closing remarks.

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Okay. Thank you very much. Thanks for your good questions, and thanks very much for joining us this sunny afternoon. So, thanks a lot, and have a very, very nice weekend. Thank you.

Operator

Thank you, ladies and gentlemen. That concludes today's conference call. You may now disconnect.

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